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Research Report

on

‘Budgeting Techniques of Rural Local Bodies in Karnataka’

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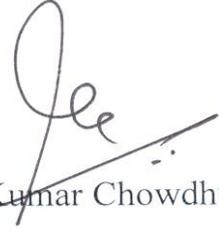
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Certificate

This report titled “*Budgeting Techniques of Rural Local Bodies in Karnataka*” is a report on the study taken up at the Fiscal Policy Institute (FPI) in 2018-19.

The report is prepared by Dr. Anantha Ramu M R, Research Consultant, FPI under the mentorship of then Special Officer Ms. Nelleri Umeshwari.

All opinion and conclusions expressed in this report are of the Research Consultant and usual disclaimer applies.



Sujit Kumar Chowdhury
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Institute's Seal.

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Abstract

Participatory budgeting at the local government level gained momentum in the 1990s. It was very successful in several countries like Brazil and Kenya. This study examines the budgeting process at local government level in the state of Karnataka and also discusses the provisions under Karnataka Panchayat Raj (second amendment) Act, 2015. Various best practices regarding panchayat budgeting and its execution and lessons to be learnt from those practices have been clearly examined in the study.

In order to understand the actual budgeting practices being followed, case studies have been conducted in three select gram panchayats of Karnataka. It was found that people's participation depends on the level of development of the panchayat area itself as well as awareness being created by the panchayat officers. A financially quite well off panchayat among the three select panchayats tends to have more people participation in gram sabhas. Also, budgeting issues are being discussed in such gram sabhas. This study emphasises that the state government should insist in conducting special gram sabhas to discuss the budget issues. The expenditure to be incurred should reflect the priorities of the people that are decided in the gram sabha.

Executive Summary

Karnataka follows a three-tier structure of panchayat raj system, namely zilla panchayats, taluk panchayats and gram panchayats. This study examines the provisions of the Karnataka Panchayat Raj Act, 2015 with regard to the budget preparations of gram panchayats in the wake of participatory budgeting. Panchayats in Karnataka are mainly dependent on grants from the Central and state governments. Grants from the state government encompass the major component of revenue for PRIs and it constituted around 81% of the total revenue receipts in 2014-15. Prime areas of spending by PRIs are on administration, maintenance and pay allowances.

This study has also examined international as well as domestic best practices of local government budgeting. Participatory budgeting was highly successful in Brazil. The positive impact of participatory budgeting was noticed in terms of improvement in the accessibility and quality of various public welfare amenities in the municipalities where it was being adopted. The participation and influence of people belonging to low income groups in the budget allocation process are proof of their empowerment. Participatory budgeting began in Brazil in 1989 and by 2013, this kind of budgeting method was found in more than 2,500 municipalities worldwide. It was successful in Kenya too. Participatory budgeting in Kenya has increased opportunities for women and remote communities to take part in expenditure prioritisation and the budget allocation was aligned with the citizens' priorities. This framework has also made the elected members to compulsorily participate in the discussions so that it will allow swifter approval of budgets and reduce the changes in a proposed budget.

There are several best examples of people's active participation and cooperation for panchayat development in India. Bearhatty gram panchayat in Nilgiris district of Tamil Nadu prepares its annual plan in advance and discusses it in the gram sabha and with various stakeholders. Dakshina Kannada zilla panchayat in Karnataka conducts regular meetings once in two months. Through 'Shramadan', people out of their personal interest built 110 toilets in a single day in Goltha Majal gram panchayat of Dakshina Kannada district. With many innovative ideas and efforts, Dakshina Kannada zilla panchayat was awarded the Nirmal gram Puraskar from the Indian government.

To understand the ground realities, the budgeting practices of three select gram panchayats have been studied. gram panchayats were selected based on the number of gram sabhas conducted in

the year 2016-17. The gram panchayats with highest and lowest number of gram sabhas namely Meerasabihalli of Chitradurga district and Rajavanthi of Tumkur district have been selected. Along with these, another gram panchayat, Kudur gram panchayat, which is on the verge of upgrading to the higher tier and having high own revenue sources has also been selected. It was found during the study that the level of development of a panchayat as well as the creation of awareness on the gram sabha determines the people's participation. The panchayat officials in less developed areas like Rajavanthi are not aware of new avenues of their own revenue. The officials must be properly informed and trained in this regard. Budget issues are discussed in the gram sabha in Meerasabihalli and Kudur gram panchayat, whereas in Rajavanthi gram panchayat, they are discussed amongst the members and panchayat officials.

This study emphasises the need to make it mandatory for conducting special or exclusive gram sabhas for discussion of budget. A budget should reflect the priorities of the people and hence people should decide where the money has to be spent. Panchayat officials should be constantly informed about new avenues of taxation. The government should help panchayats in creating physical infrastructure like buildings as well as social infrastructure which could earn them a potential amount of their own revenue.

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Budgeting Techniques of Rural Local Bodies in Karnataka

The state of Karnataka is a forerunner in decentralisation reforms in India. One of the most important initiatives towards decentralisation in Karnataka took place in 1983 with the enactment of Karnataka Zilla Parishads, Taluk Panchayat Samitis, Mandal Panchayats and Nyaya Panchayats Act, 1983 and it got implemented in 1987. The 1983 Panchayat Act enacted by the Karnataka government was a landmark legislation in India and it provided a model of decentralisation envisaged in the country subsequent to the 73rd Constitutional Amendment (Rao et al, 2004).

The 73rd Amendment to the Indian Constitution has brought in a standardised system of decentralisation in the country. This amendment was promulgated to enable the state legislature to endow the panchayats with such powers and authority as may be necessary to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibility upon panchayats at the appropriate level (IPAI, 2016). Consequent to the amendment, the Karnataka Panchayat Raj (KPR) Act was enacted in 1993 and it provides for a three-tier structure of rural local governments at district, taluk and village level.

With the Constitutional amendment, panchayats can act as independent bodies and make plans for social and economic development. It has provided sufficient representation for the marginalised section of the society. Having adequate devolution of powers and financial resources, it requires the panchayats to properly formulate and implement the budget to achieve overall social and economic development of the people under its limit.

This paper concentrates on the budgeting practices of panchayats in Karnataka and also draws the lessons to be learnt from the best practices across the world. The paper is structured as follows. The first section explains the structure of Rural Local Bodies (RLBs) in Karnataka. The second section elaborates on the sources of revenue to the panchayats and also the major expenditure items. The third section discusses the budgeting practices to be followed by RLBs in Karnataka as per the Karnataka Panchayat Raj Act, 1993 and also draws several important lessons to be learnt from international best practices with regard to local budgeting. In the fourth section, field observations regarding the budgeting practices of select gram panchayats are discussed. The final section concludes the paper with a mention of certain policy implications.

Chapter 1

Structure of PRIs in Karnataka

Karnataka follows a three-tier structure of panchayat raj system namely zilla panchayats, taluk panchayats and gram panchayats. There is a zilla panchayat for each district having jurisdiction over the entire district, excluding municipal areas. Each taluk has a taluk panchayat and it has jurisdiction over the entire taluk excluding the municipal area. The gram panchayats are constituted for a village or a part of a village or group of villages having a population of not less than 5,000 and not more than 7,500. There are 6,022 gram panchayats in Karnataka along with 176 taluk panchayats and 30 zilla panchayats as on May end 2017 (GoK, 2017). Each of the three tiers of decentralised government in Karnataka is vested with executive authority and they are expected to be independent of each other. In actual practice, administrative regulations, supervision and reporting requirements and capacity differences have resulted in a hierarchical structure (Rao et al., 2004). The taluk panchayat supervises the gram panchayats and zilla panchayat supervises the other two tiers of the panchayat raj system in Karnataka.

The gram sabha is one of the important components under the panchayat raj system in Karnataka. A gram sabha is a body consisting of persons registered in the voters list of each gram panchayat constituency. The gram sabha shall approve plans, programmes and the budget prepared by the gram panchayat.

Article 243G of the Indian Constitution provisions that the state legislature may, by law, endow such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibility upon panchayats (GoI, 2011). This provision enables the gram panchayats to prepare plans and implement schemes for economic development and social justice.

Chapter 2

Receipts and Expenditure of RLBs in Karnataka

Receipts of RLBs

As per the provisions of Article 243H of the Indian Constitution, the state legislature may assign certain taxes, tolls, duties etc collected by the state government to panchayats, providing grants-in-aid to panchayats from the Consolidated Fund of the state and also authorise panchayats to levy and collect taxes. The tax receipts of gram panchayats include income from property tax, collection of fees and cess, water rate, streetlight cess, licence fee, entry fee for shopkeepers in fairs other than cattle fairs, khatha transfer fee, shop and establishment licence fee and others. Non-tax receipts of gram panchayats mainly consist of their share of land revenue, income from movable and immovable properties, sale of movable and immovable properties, income from endowments or trusts, interest receipts on loans advanced, interest on deposits, donations and contributions etc.

The Secretary/Panchayat Development Officer (PDO) of the gram panchayat shall collect revenue unless the gram panchayat authorises a person like a bill collector to collect revenue. The gram panchayat maintains a receipt book and a day book and all particulars of the amount received are entered into it. The collected amount is then remitted to the gram panchayat fund. Gram panchayats should maintain a demand and collection register of taxes. Each major tax of a gram panchayat like taxes on land and buildings, taxes on advertisement, water rates, licence issued, taxes on entertainment etc have to be entered in separate registers.

The terms of references of the Central Finance Commission mandates the commission to recommend “measures needed to augment the consolidated fund of a state to supplement its resources of the panchayat and municipalities in the state on the basis of the recommendations made by the Finance Commission of the state” (GoI, 2015). The Central government as per the recommendations of the Central Finance Commission transfers the funds to state governments to strengthen the local bodies. After receiving funds from the Central government, the Finance department of Karnataka transfers the funds directly to the accounts of concerned local bodies. The state government, based on recommendations of the State Finance Commission, transfers the state grants to local bodies through the Treasury. Zilla panchayats draw funds from the Treasury and transfer it to the bank account of gram panchayats. The Central and state sponsored schemes

funds are transferred to a separate bank account maintained by gram panchayats for specific schemes.

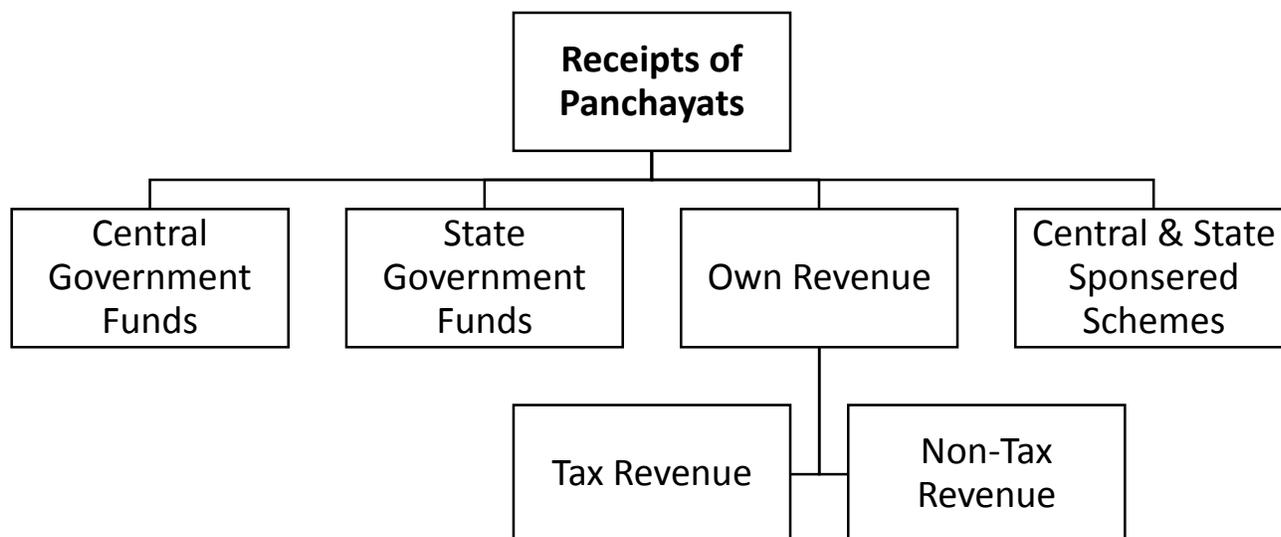


Table 2.1
Revenue Composition of PRIs in Karnataka

(in Rs. Crore)

| Revenue | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|-----------------|-----------------|-----------------|----------------|-----------------|-----------------|
| Own Revenue | 312.08 | 269.09 | 176.93 | 333.23 | 330.53 | 331.61 |
| Central Finance Commission Transfers | 769.58 | 1036.49 | 1350.87 | 1091.43 | 1197.9 | 1373.59 |
| Grants from State Government & Assigned Revenue | 13340.83 | 16622.14 | 19669.19 | 22888.37 | 21941.27 | 27764.15 |
| GoI grants for CSS & State Schemes | 2764.62 | 2837 | 4243.92 | 1008.08 | 3553.46 | 555.24 |
| Other Receipts | 192.66 | 153 | 224.12 | 251.99 | 275.85 | 79.94 |
| Total | 17379.77 | 20917.72 | 25665.03 | 25573.1 | 27299.01 | 30104.53 |

Source: GoK (2017) & GoK (2018a)

Note: Other Receipts include interest and miscellaneous receipts from scheme accounts

The gram panchayat funds include all grants from the Centre and state government, all taxes, duties, cesses, fines and fees imposed, donations, loans received, income from lease or sale of land or property. Table 2.1 depicts the composition of the revenue of PRIs in Karnataka. Table 2.1 reveals that grants from the state government encompass the major component of revenue for PRIs. In 2011-12, it constituted nearly 76.7% of total receipts and it increased to 92% of total receipts in 2016-17. Own revenue was around 1.8% of total receipts and it further decreased to 1.1% in 2016-17. Own revenue resource of gram panchayats out of its total revenue receipts is only 5% in 2017-18 (GoK, 2018). This is a matter of great concern. Out of 6022 gram panchayats in Karnataka 4684 gram panchayats collect own revenue ranging between Rs. 1 lakh to Rs.10 lakh. There are only 44 gram panchayats with the own revenue collection exceeding Rs. 1 crore (GoK, 2018). It indicates that own revenue receipts for PRIs in Karnataka are substantially low and gram panchayats are dependent on the grants from state and Central government. There are several reasons for low collection of own tax revenues. Rao et al (2004) found that panchayats with greater proximity to taluk and district headquarters and with better connectivity and access to markets collect more own revenues. Roy et al (2010) observed that panchayats having more literate people and less dependency on agriculture collect more revenue. Hence, panchayat areas with high dependency on agriculture, less share of literate people and which do not have better market connectivity collect less own tax revenues.

Table 2.2

Demand versus Collection of Revenue by Gram Panchayats

| Year | Total Demand (in Rupees Crore) | Collection (in Rupees Crore) | Percentage of Collection against Total Demand (%) |
|---------|-----------------------------------|---------------------------------|---|
| 2013-14 | 1296.87 | 243.71 | 18.79 |
| 2014-15 | 1374.27 | 304.70 | 22.17 |
| 2015-16 | 1449.09 | 297.75 | 20.54 |
| 2016-17 | 1612.25 | 292.36 | 18.13 |

Source: GoK (2018)

Another factor of concern is low collection of revenues against the total demand. In the year 2016-17, the percentage of collection over total demand was 18.3% (refer Table 2.2). As it was reported by the Fourth State Finance Commission, Karnataka, the areas of concern are coverage of properties, proper assessment and revision of taxes and non-tax revenues, installation of meters to each water connection, collection of water usage charges, road cutting charges etc (GoK, 2018). The Fourth State Finance Commission further argues that there is unwillingness among elected representatives to levy and collect taxes and raise non-tax revenues since this may affect their electoral prospects adversely. And there is reluctance/unwillingness from people to pay taxes due to the absence of minimum basic needs.

The PDO or president of gram panchayat can operate the panchayat fund. The gram panchayat fund shall be deposited in a bank to which the Government Treasury business is entrusted including a scheduled bank or cooperative bank situated in a panchayat area or a neighbouring panchayat area.

Expenditure of RLBs

The expenditure of RLBs mainly constitutes spending on administration, maintenance and pay allowances. Community welfare, education and health, sanitation works etc are the other key areas of RLBs spending. Sectors like education, rural employment, welfare of women and children, welfare of scheduled caste and scheduled tribes and rural housing have been the priority sectors of the panchayats in Karnataka (GoK, 2017). For instance, in 2016-17, out of total allocation towards district sector plan funds, education sector received 29.3%, rural housing received 9.16% and rural employment sector received 12%.

Chapter 3

Budgeting Practices

Budget is a means to implement the development plans and should enable all-round development of people in a society. There are various types of budgets, namely zero-based budgeting, performance budgeting, participatory budgeting and so on. Zero-based budgeting requires every agency to make all its budgetary decisions as if they were completely new decisions and it assumes zero base at the beginning of each budget schedule. All expenses are justified for each new period. Performance budgeting refers to the linking of expected results to budgets. It emphasises on targeting and measuring outputs and performance with data analysed against aims and standards (Folsher, 2007). Participatory budgeting is the process of directly involving local people in making decisions on the priorities and spending for defined amount of public budget (World Bank, 2017).

Budgeting involves four important steps, namely, Preparation, Approval, Implementation, Monitoring and evaluation.

3.1. Budgeting Procedure as per KPR Rules, 2006

The Karnataka Panchayat Raj (Gram Panchayats Budgeting and Accounting) Rules, 2006 specifies a procedure for preparing and presenting the budget at gram panchayat level. As specified under Section 241 of the Karnataka Panchayat Raj Act, 1993, the secretary of the gram panchayat shall prepare and lay before the gram panchayat the statement of estimated receipts and proposed expenditure at a meeting which shall be held between 1st February and 10th March (Puliani, 2014). The state or Central government or the zilla panchayat or the taluk panchayat, as the case may be, before the end of each year are to intimate gram panchayats the amounts of contribution, grants and loans, if granted any, to prepare estimates of revenue and expenditure for the ensuing year (IPAI, 2016). The expenditure should be estimated based on administrative expenditure like salaries and wages, office expenses, office equipment, electricity charges etc incurred during the previous year with the addition of expected increment due to inflation, dearness allowance and annual increment. Estimates of expenditure on works are to be drawn with the help of the engineering department or by indicating approximate figures on the basis of existing prescribed rates. The budget estimates shall consist of three statements and they are as follows:

1. Statement-1: Budget Abstract of ___ GP for the year _____

2. Statement-2: Detailed estimate of receipts anticipated
3. Statement-3: Detailed estimate of expenditure proposed

The budget estimate shall be supported by subsidiary statements like

1. Form 1A: Estimate of demand, collection and balance under gram panchayat rates and taxes
2. Form 1B: Estimate of expected receipts, collection and balance of income from gram panchayat properties
3. Form 1C: Estimate of expected receipts, collection and balance of the revenue from statutory powers of gram panchayat apart from taxation
4. Form 1D: Statement of salary establishment
5. Form 1F: Statement of loans availed and anticipated grants etc.

The gram panchayats should follow the accrual accounting method. It means the system of recording transactions of revenue when it is earned and expenditure when it is incurred, irrespective of cash under the normal double entry accounting system. The gram panchayat secretary/PDO should follow these guidelines while preparing the budget:

1. Budget estimate shall be for what is expected to be received or paid during the year and not for demands or liabilities likely to fall due within the year. This would help to initiate the discussion on the demands / priorities.
2. All existing liabilities, which cannot be liquidated before the commencement of the year for which budget is being prepared shall be ascertained and provided for.
3. Allow for a balance at the end of said year of not less than such sum or percentage of income as may from time to time be fixed by the government.

No expenditure in excess of the sanctioned budget provision shall be incurred, unless budget allocation for such excess is provided by revision of the budget. If the gram panchayat considers to revise the budget during the course of the financial year, it should obtain approval from the chief executive officer of the concerned zilla panchayat and no reduction of over ten per cent shall be made in the grants approved for developmental functions. (Puliani, 2014).

3.2. Best Practices: Indian and International Experience

Participatory budgeting has gained momentum in many places of the world in the last two and a half decades. Participatory budgeting evolved in Brazil in the late 1980s. The 1988 Brazilian Constitution provides several mechanisms which allowed the grassroots movements to take part in some decisions and to oversee public matters, especially at the local level (Souza, 2001). Participatory budgeting is a process through which citizens present their demands and priorities for civic improvement, influence the budget allocation through discussions and negotiations. Participatory budgeting began in the Brazilian city Porto Alegre where one-third of the city's population lived in isolated slums and lacked access to basic civic amenities like clean water, sanitation, medical facilities and schools in the late 1980s. To overcome this situation, certain innovative reform programmes were started in 1989 and participatory budgeting emerged as the centerpiece of these programmes. Community representatives, usually from low income districts, decided upon the allocation of resources through participatory budgeting (Bhatnagar et al., 2003). The community representatives determine the investment priorities together and priority is given to the progressive distribution of resources, regardless of individual representative demands, so that poorer areas receive more funding than the well-off ones. Bhatnagar et al. (2003) also listed out the key elements of empowerment in Brazil and they are as follows:

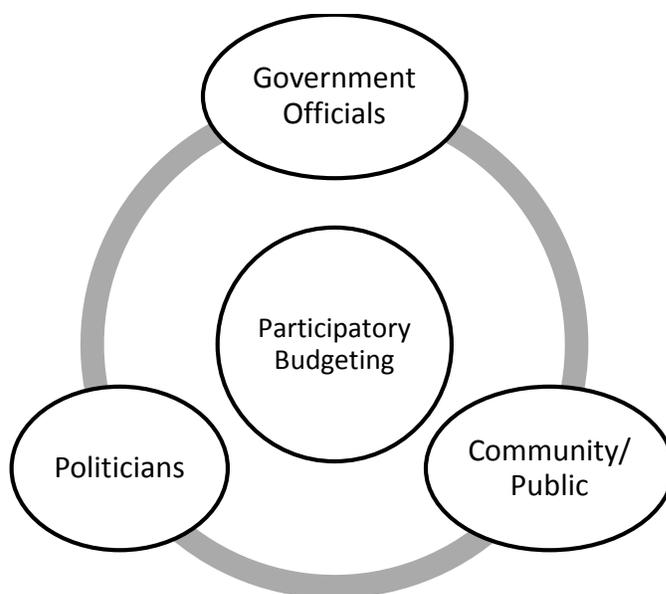
1. Information disclosure
2. Participation of low income segments of population and their influence on the decision making process
3. Transparency remains the core of participatory budgeting. The administration must share its economic and financial position with the people
4. Local community groups were formed to raise their demands and influence budget decisions.

The positive impact of participatory budgeting was noticed in terms of improvement in the accessibility and quality of various public welfare amenities in the municipalities where it was being adopted. The participation and influence of people belonging to low income groups in the budget allocation process are proof of their empowerment. As mentioned earlier, participatory budgeting began in Brazil in 1989 and by 2013, this kind of budgeting method was found in more than 2,500 municipalities worldwide (Gilman, 2016).

The role and commitment of elected leaders becomes crucial for the success of participatory budgeting. In Kenya, with the support of the Kenya Participatory Budgeting Initiative and commitment from West Pokot and Makneni county leaders, participatory budgeting is being tested as a way to achieve a more inclusive and effective citizen engagement (World Bank, 2017). The framework is quite strong as the Constitution of Kenya and supportive legal framework on devolution place emphasis on public participation, transparency and accountability as a means of improving efficiency, equity and inclusiveness of government service delivery (World Bank, 2017). Participatory budgeting in several counties of Kenya has increased opportunities for women and remote communities to take part in expenditure prioritisation and the budget allocation was aligned with citizens' priorities. This framework has also made the elected members to compulsorily participate in the discussions so that it will allow swifter approval of budgets and reduce the changes in the proposed budget. As shown in Figure 2, participatory budgeting should consist of government officials, elected people's representatives/politicians and the public.

Participatory budgeting is taking root in USA in the present decade. It was found that the number of participants in participatory budgeting and the dollars allocated have roughly doubled each year between 2011 and 2015 (Gilman, 2016). In the USA, the Department of Housing and Urban Development funds the participatory budgeting programmes.

Fig 3.1. Participatory Budgeting: Stakeholders



The World Bank has concluded that participatory budgeting, especially in developing democracies, has the potential to limit government inefficiency and curb clientelism, patronage and corruption (Shah, 2007). In India, the 73rd and 74th amendment to the Constitution provided autonomy at the grassroots level. These amendments devoted greater responsibilities and role to local governments. Experiences around the world suggest that legal provision for decentralisation and participation are necessary to create an enabling environment for these institutions (Folsher, 2007). Citizen participation in deciding allocation and usage of funds is very important to achieve development goals. Folsher (2007) lists out several reasons in this regard.

1. Citizens have the best knowledge of their needs, preferences and local conditions.
2. Citizens' participation in decision making makes it more likely that available funds will be used to deliver the goods and services most needed.
3. Contributes to better public policy and policy implementation.
4. Improves government effectiveness.
5. Helps in making officials more accountable and efficient.
6. Builds social cohesion, which can lead to the very tangible benefit of increased tax collection.

Participatory budgeting has great potential to strengthen the democratic quality and values. Participation in public decision-making is a form of direct democracy that allows for a more meaningful democratic relationship between citizens and the government than that provided by representative democracy (Folsher, 2007).

The Ministry of Panchayat Raj, Government of India has initiated a Central Sector Plan Scheme called Panchayat Empowerment and Accountability Initiative Scheme (PEAIS) in 2005-06 aiming at:

1. Incentivising states to empower panchayats through devolution functions, funds and functionaries in accordance with Article 243G of Indian Constitution.
2. Incentivise panchayats to put in place accountability systems to make their functioning transparent and efficient.

Under this scheme, states are ranked based on a Devolution Index which measures the extent of devolution of functions, funds and functionaries from state to panchayats. Since 2011-12, the best

performing panchayats are also being incentivised (PIB, 2017). Some of the major indicators to assess the schemes are as follows:

1. Panchayat functioning: Regular conduct of panchayat meetings, gram sabhas and formation of standing committees
2. Management of personnel and capacity building
3. Planning and budget formulation
4. Income generation: Collection of taxes, dues etc.
5. Performance: Physical achievement
6. Accountability and transparency: Maintenance of accounts and audit

A gram panchayat, namely Bearhatty gram panchayat in Nilgiris district of Tamil Nadu, has performed well in all the above indicators. It also received A number of awards like Nirmal Gram Puraskar, Panchayat Sashaktikaran Puraskar etc from the Indian government. Concerning the planning and budget formulation, which is the thrust of this study, Bearhatty panchayat has prepared its annual plan in advance and it was discussed in the gram sabha and with various stakeholders. More importantly, the suggestions received in the gram sabha were incorporated. The budget was prepared as per the norms. This gram panchayat had also prepared a gender budget. Accounts were maintained under the prescribed format, updated and authenticated and have been placed before the gram sabha (GoI, 2015). The gram sabhas were conducted regularly and frequently. One more noticeable fact is that the gram sabhas were conducted in different hamlets to ensure that all the people got an opportunity to participate. This resulted in improving attendance as well as awareness among the public about panchayat activities.

The Dakshina Kannada zilla panchayat in Karnataka conducts regular meetings once in two months. It publishes an annual administrative report every year. It includes details on total funds received, expenditure, grievances addressed etc. The active participation of panchayat office holders and the public is very important to achieve any of the set goals. In 2005, the Dakshina Kannada zilla panchayat conducted a survey to assess the sanitation status in the district. The finding revealed that nearly 61% of the families had no toilets including many above poverty line families. The minimum cost of constructing a toilet was around Rs 4000 (in the year 2003) whereas the government provided only Rs 1200. In this circumstances, Ira gram panchayat in Dakshina Kannada district came up with the idea of voluntary service (Shramadaan) where many people

including the panchayat officials took part in work to dig pits for toilets (GoI, 2015). This motivated other gram panchayats. Through Shramadaan, 110 toilets were built in a single day in Goltha Majal gram panchayat of Dakshina Kannada district. For its many innovative ideas and efforts, the Dakshina Kannada zilla panchayat was awarded the Nirmal Gram Puraskar by the Central government.

Another example of active people's participation in panchayat activities is Ghatboral gram panchayat of Bidar district in Karnataka. The gram panchayat members conduct monthly meetings regularly and discuss issues that are related to the development tasks of the panchayat (GoI, 2015). It was noted that overall attendance has been above 90%. The Ghatboral gram panchayat has the practice of conducting a mandatory number of gram sabhas. One of the best practices of the panchayat is that the elected members address the issues as a team rather than individually.

Transparency in the planning and budgeting process and the active participation and representation of people, especially youth, is very essential for the successful implementation of any programme. Gerethang-Labing gram panchayat in Sikkim follows the participatory planning process and has formulated a Gram Planning Forum (GPF). They have adopted a bottom-up approach for planning and in the first stage, planning is prepared by ward level committee and then compiled at gram panchayat level and finally passed and approved by the GPF (GoI, 2015). This gram panchayat has 12 standing committees. Apart from panchayat members, villagers also are part of the standing committees. All the committees are very active and members meet on a regular basis and take the necessary decisions. Gerethang-Labing gram panchayat has also given high importance to revenue generation. It has identified a number of sources to raise revenue like building permanent shops, charging animal transactions etc. and also mobilised people to pay tax. The functioning of the gram panchayat is very transparent and it declares the amount of money generated and expenditure incurred in the gram sabha. This transparency has helped the gram panchayat to raise more revenue. The villagers pay taxes and fees willingly and visit the gram panchayat office to obtain information on the pending amount of revenue (GoI, 2015). The gram panchayat also gives much importance to the gram sabha and has put in efforts to strengthen it. The gram panchayat gives notice to all members of the gram sabha about attending it. In the case of absence, the members need to inform the gram panchayat, giving the cause of absence in writing. The gram panchayat has constructed a separate hall to conduct gram sabha proceedings and people have contributed

around Rs 2 lakh for its construction. Attendance in gram sabha is almost 80%. Youth in the villages participate very actively and GPF encourages them by recognising and awarding them with the 'Best Youth Award'.

Chapter 4

Budgeting Practices of Select Gram Panchayats in Karnataka

In order to understand the ground realities, three gram panchayats have been selected and officials of the panchayats have been interviewed. A questionnaire was prepared to gather all the required information. The questionnaire was structured under two broad heads, the first consisting of questions to get general information about the panchayat and the second, exclusively on budgeting issues. The gram panchayats were selected based on the number of gram sabhas conducted in the year 2016-17.

Table 4.1

Field Survey: Details of gram panchayats selected for the study

| District | No of GPs | No of gram sabhas | Taluk | No of GPs | No of gram sabhas | Gram panchayat | No of gram sabhas |
|-------------|-----------|-------------------|------------|-----------|-------------------|----------------|-------------------|
| Chitradurga | 189 | 939 | Challakere | 40 | 223 | Meerasabihalli | 24 |
| Tumkur | 331 | 731 | Pavagada | 34 | 59 | Rajavanti | 00 |
| Ramanagara | 127 | 429 | Magadi | 32 | 121 | Kudur | 04 |

Source: GoK (2017b), <http://www.panchatantra.kar.nic.in>

Details on the gram panchayat selected for the study is provided in Table 4.1. Chitradurga district has conducted the highest number of gram sabhas and ward sabhas. There are 189 gram panchayats in the district. The number of gram sabhas and ward sabhas conducted by gram panchayats of Chitradurga district were 939 and 1,110 respectively. It implies that on an average, each gram panchayat has conducted 5 gram sabhas in 2016-17. In Chitradurga district, Challakere taluk has conducted the highest number of gram sabhas i.e. 223 gram sabhas and 251 ward sabhas. Moving down to gram panchayat level, Meerasabihalli in Challakere taluk has conducted 24 gram sabhas in the year 2016-17, which is the highest among all other gram panchayats. Hence, Meerasabihalli has been chosen as one of the study areas.

Tumkur district has 331 gram panchayats. However, the number of gram sabhas being conducted here are comparatively fewer. The number of gram sabhas and ward sabhas were around 731 and 905 respectively in Tumkur district. It implies that on an average, only two gram sabhas are

conducted per gram panchayat. Pavagada taluk in Tumkur district has conducted the lowest number of gram sabhas, totalling only 59 for 34 gram panchayats. Rajavanthi gram panchayat of Pavagada district has been chosen as the number of gram sabhas conducted here was zero in the year 2016-17.

After selecting two gram panchayats which had conducted highest and lowest number of gram sabhas, we have chosen another gram panchayat, which has a good source of its own revenue, and it is almost on the verge of being promoted to the higher tier in the hierarchy of local self-governments in Karnataka. For this purpose, we chose Kudur gram panchayat in Magadi taluk of Ramanagara district. Kudur gram panchayat has conducted four gram sabhas and eight ward sabhas in the year 2016-17.

Panchayat Development Officers (PDOs) and secretaries of all three gram panchayats have been interviewed as they are the ones who understand the technicalities and are responsible for the implementation of the budget. Meerasabihalli gram panchayat has a population of 11,481 as per 2011 census, out of which 5,853 are male and 5,628 are female. There are 21 elected members, of whom 11 are women, eight persons belong to the Scheduled Castes and Scheduled Tribes. A request has been made by this GP to the ZP for upgradation to TP based on population criteria. This panchayat has received the 'Open Defecation Free Gram Panchayat' award from the Rural Development and Panchayat Raj Department of the government of Karnataka in 2016.

The Central Finance Commission grants are the major source of receipts for Meerasabihalli gram panchayat. Property tax is the major source of its own revenue. Resource mobilisation is as per the Karnataka Panchayat Raj Act. However, buildings are not taxed as per their capital value, advertisements and hoardings are not being taxed. As the PDO mentioned, they don't have many taxable buildings and few advertisements and hoardings to tax. The gram panchayat is not taxing mobile towers in their jurisdiction as per the 2015 amendment of KPR Act. Among the expenditures, sanitation and drinking water facilities cover a major portion of the spending by the gram panchayat. The PDO said that there was a huge drought since the last four to five years and drinking water was being supplied using water tankers. Panchayat officials said they have heard of 'Participatory Budgeting' but they are not much clear about the concept. However, they said that a majority of the decisions are taken in the gram sabha meetings only. As mentioned earlier, this gram panchayat conducted 24 gram sabhas in the year 2016-17. The PDO and vice-president

of Meerasabihalli gram panchayat said that villagers actively participate in gram sabha meetings. There is active participation of women, SC-ST and minorities and their strength in the meeting crosses the required 30% as per the KPR Act. Often, members of zilla panchayat and taluk panchayat also participate in gram sabha meetings. This gram panchayat has also conducted ward sabha and habitation sabhas.

The Meerasabihalli gram panchayat has conducted a gram sabha to discuss the budget issue in the month of February. Priority expenditure is selected through discussion in the gram sabha. Needless to say, people in the gram sabha stressed the need for more spending on water supply and sanitation. For instance in 2015-16, more than 30% of statutory grants and own tax revenue was spent towards drinking water management. The budgeted spending will be forecast based on the previous year's spending. The increment in the spending will be between 10 to 15%. Gram panchayat officials are well informed about the amount of grants the gram panchayat would receive from the Central Finance Commission as well the state government. It will be considered while forecasting the budget for the ensuing year.

Another gram panchayat for the study is Rajavanthi gram panchayat. It is situated on the border of Karnataka and Andhra Pradesh, with a population of 6,861. There are 18 elected members in the gram panchayat of whom 10 are female candidates. And 11 members out of 18 members belong to SC-ST and minorities. At the time of our visit to the gram panchayat, there was no PDO/secretary/bill collector in the office. There was no secretary to the panchayat and the existing PDO was under suspension. Hence, there were no prime officials in the panchayat office to conduct meetings or take decisions. Property (house tax) tax is the major source of own revenue, the collection of which is under a miserable situation. People are not willing to pay property tax even though it is minimal. The gram panchayat does not have any other sources of own revenue like buildings etc. It is completely dependent on grants from the Central and state governments. The gram panchayat has not conducted any gram sabha in the financial year 2016-17. As other officials in the gram panchayat mentioned, a gram sabha was conducted, but in the middle of the meeting, quarrels arose between the participants and the gram sabha had to be stopped there itself. It was the first and last gram sabha for that financial year. However, ward sabhas and habitation sabhas were conducted by the gram panchayat. This is true with many of the gram panchayats. A study assigned by the Fourth State Finance Commission found that citizen participation in gram sabha

and ward sabha meetings was very low because of lack of interest to attend such meetings due to quarrels in the meeting, a widespread perception that their needs are not considered and lack of information on dates of meeting (GoK, 2018). The study further argued that it has resulted in a 'exit of the poor' from decentralised governance. The prime area of expenditure is water supply and sanitation. The priority item of expenditure is selected by discussing with gram panchayat members. Based on the previous year's spending, expenditure will be forecast for the ensuing year. The panchayat does get intimation on grants from the state and Central governments. Officials like data entry operators opined that there is lack of infrastructural support such as internet, power etc at least to update the file to the Panchatantra portal. They further added that meetings are conducted in an ad hoc way without preparing the agenda, without taking the attendance, and no proper recording of the proceedings.

Kudur gram panchayat comes under Magadi taluk of Ramanagara district. Kudur is considered as a census town by Census India, 2011. As per the 2011 census, the total population of Kudur is 9,114. If the Kudur gram panchayat is considered, its total population has already crossed the ten thousand mark and it is on the verge of upgrading to a taluk panchayat. Kudur gram panchayat has eight wards and there are 24 members of whom 12 are female. Seven out of 24 belong to SC-ST and minorities. Kudur gram panchayat has received three awards to its credit since the last decade. It has received Nirmala Grama Puraskar from the Central government in the year 2007. It also received Gandhi Grama award in 2014-15 and Open Defecation Free award in 2016-17 from the Karnataka government.

Kudur gram panchayat is following the guidelines given under KPR Act for budget preparation. Own revenue receipts is the major source of revenue. The budget of Kudur gram panchayat is crossing the Rs 1 crore mark in recent years. Own revenue constitutes around 60% of their overall receipts. Property tax is the major own tax revenue. The panchayat has its own buildings which are being rented. It receives more than Rs 2 lakh as rent from the buildings every month. The panchayat's resource mobilisation is as per the KPR Act. Buildings are being charged as per their capital value and they are taxing the advertisements and hoardings. They are also taxing the mobile towers at the rate of Rs.12,000 per annum. Even though the own tax revenues are in good shape, still the collection and compliance by taxpayers are not up to the mark. Only around 40% total tax demanded was collected in the financial year 2016-17. Reaching cent percent mark in revenue

collection would put the finances of Kudur gram panchayat in a good shape, which would help in further improvement of the panchayat area. The major item of expenditure is on administration, maintenance and pay allowances. Water supply and sanitation are other major area of spending by the gram panchayat.

Gram panchayat officials said that they are aware of participatory budgeting. The gram panchayat conducts at least four gram sabhas a year apart from ward sabhas and habitation sabhas. Women, SC-ST and minorities actively participate in the gram sabha. Representatives from zilla panchayat and taluk panchayat attend the gram sabha meetings. Often, the MLA of Magadi constituency attends the gram sabha meetings. Kudur gram panchayat has conducted Children Sabha and Farmers Sabha to address the grievances of children and farmers respectively. The priority items of expenditure are selected based on discussion in the gram sabha. Based on expected own revenue and grants, the spending is forecast for the ensuing year. The gram panchayat does get intimations about the amount of grants it would receive from the Centre and state governments.

The role of a gram panchayat in the development of rural areas is immensely vital. People's active participation at this juncture is equally important. The gram sabha provides such a platform where people of a particular gram panchayat would raise their concerns as well as check the functioning of the panchayat. It was observed in the field that with the level of development of the panchayat area, people's participation had also increased. If Rajavanti gram panchayat is compared with the other two gram panchayats namely Meerasabihalli and Kudur, people's participation is very minimal in the former. Office-bearers at Rajavanti gram panchayat raised the concern that even after many announcements and publicity, hardly any people attend the gram sabha meetings. A gram panchayat should try to create more and more awareness amongst the people and should not suppress their voices. Panchayat officials should put in more efforts to make all the participants understand what the issue is. Officials should listen to the gram sabha members and convey the decisions wisely at the end of the meeting.

A budget should reflect the priorities / needs of the people, hence people's suggestion should be given the utmost importance. It is not just about the preparation of budget, but how well it gets implemented has to be checked by the people. Hence, since the beginning of framing the budget to its implementation, people's active involvement is very much needed. Gram panchayat officials should be trained properly and have to be intimated about the changes in the tax rules. Lack of

awareness about new avenues of taxes like taxing mobile towers, taxing properties based on market value etc resulted in loss of own revenue to the panchayats.

A special gram sabha to discuss the budget has to be conducted by each gram panchayat. In the special gram sabha, issues relating to mapping of prime areas of spending, status of own revenue collection and possibilities of raising the revenue have to be discussed. With a broad discussion of these aspects in the gram sabha, the gram panchayat officials can prepare and finalise the budget. In the month of October, a special gram sabha meeting has to be conducted by the gram panchayat to revise the plans if required and also to present the status of spending and revenue collection in the first half of the year. Overall, a gram panchayat budget should be a people's budget.

Chapter 5

Conclusion and the Way Forward

Many international and some Indian experiences reveal that participatory budgeting is necessary to ensure that the demands of the people are fulfilled. Participatory budgeting provides a platform for the people to express their needs and also to crosscheck the status of work as budgeted earlier. A gram sabha, which has a special place as per KPR Act, 2015, should further be strengthened by mandating an exclusive gram sabha meeting to discuss the budget of the panchayat. The gram sabha should provide equal representation to all and particularly to women and the deprived section of the society. Youth should be encouraged to participate in the meetings. Gram panchayats should conduct their gram sabha meetings in different locations (wards) within the panchayat jurisdiction on a rotation basis so that it gives an opportunity for all to participate in the discussions.

Providing incentives in the form of ‘citations’ or ‘awards’ etc would encourage the younger generation to participate in the discussions. This study recommends that conducting a special gram sabha to discuss the budget of the panchayat for the ensuing year should be made mandatory. It was observed amongst the select gram panchayats that the level of development of a panchayat area determines people’s participation and vice versa. For instance, participation of people in gram sabha and other meetings of the gram panchayat was very low in Rajavanthi gram panchayat, which is a less developed panchayat when compared to the other two gram panchayats considered for the study, namely Kudur and Meerasabihalli. Panchayats should create awareness among the people about the values and importance of a gram sabha. In the gram sabha meeting, panchayat officers should give details of works which have been completed and also those that need to be undertaken. Further, the panchayat officer should elaborate upon the prevailing physical and social infrastructure in the panchayat area. Members of the gram sabha should give suggestions on the kind of works to be undertaken and they should mention where it has to be exactly located. Based on the availability of funds, panchayat officers need to estimate the likely expenditure and prioritise the works suggested by the members of the gram sabha. Along with spending activities, ways to raise revenue should also be discussed in the meeting. The panchayat officials should be constantly informed about the new avenues of taxation as some of the panchayat officials are not aware of the amendments made to the KPR Act. Section IV of the KPR Act (Second Amendment), 2015 clearly mentions that properties are to be taxed based on their capital value and mobile towers

are to be taxed at the rate of Rs.12,000 per annum etc. The government should conduct capacity building programmes for panchayat officials by updating them with the recent changes in the KPR Act and also on the preparation and implementation of the budget. Eventually, a budget should reflect the priorities of the people.

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